

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF COVERED BRIDGE)	
UTILITIES, INC. FOR A RATE ADJUSTMENT)	CASE NO. 97-455
PURSUANT TO THE ALTERNATIVE RATE)	
FILING PROCEDURE FOR SMALL UTILITIES)	

ORDER

On December 10, 1997, the Commission accepted for filing an application from Covered Bridge Utilities, Inc. ("Covered Bridge") requesting a 341 percent increase in its rate for sewer service to \$64 per month. Covered Bridge proposed a revenue requirement of \$87,552, an increase of \$68,382 over test year normalized revenues of \$19,170. On December 12, 1997, Covered Bridge Farms Homeowner's Association ("Homeowner's Association"), by counsel, filed a motion to intervene which was granted by the Commission.

In April 1998, Commission Staff began a limited review of Covered Bridge's financial records and issued a Staff Report on June 26, 1998. The Staff Report recommended that Covered Bridge be authorized an annual revenue requirement of \$58,252. To produce this revenue requirement, the Staff Report recommended a 174 percent increase in rates from the existing \$14.50 per month to \$39.79.

By Order dated June 26, 1998, the parties were advised to file comments on the Staff Report or to request a hearing or an informal conference within 10 days of the date of the Order or the case would stand submitted to the Commission for a decision. Covered Bridge requested an informal conference which was held on July 23, 1998.

Covered Bridge agreed with many of the Staff's adjustments but objected to Staff's disallowance of expenses for an infiltration inspection, telephones, legal fees, transportation fees, a performance bond fee, and office rent.

By motion filed July 21, 1998, the Homeowner's Association requested a formal hearing which was held at the Commission's offices on September 10, 1998. At the hearing Covered Bridge renewed its previously raised objections to the Staff Report. The only new evidence presented by Covered Bridge was a document supporting the \$350 annual expense for a performance bond required by the Oldham County Planning Commission.

The Homeowner's Association testified that the monthly rate proposed in the Staff Report was excessive, that the Covered Bridge sewer treatment facility is not being properly operated, and that a reasonable monthly rate would be \$32. This proposed rate was calculated by taking Covered Bridge's existing monthly rate of \$14.50 and adjusting it from its effective date of April 19, 1979 to the present by the Consumer Price Index ("CPI"). The Homeowner's Association also claimed that Covered Bridge had "spiked" its test year expenses in anticipation of this rate filing. To substantiate this claim, attention was directed to amounts reported in Account No. 714, maintenance of treatment and disposal plant, for 1995 and 1996 of \$1,236 and \$11,639, respectively. It was alleged that the increase in this account was unreasonable and that the account was purposely inflated to generate additional revenue requirements. However, the Homeowner's Association acknowledged that this allegation was based solely on the amount of the increase and no review of the charges to Account No. 714 had been performed for either year.

The Homeowner's Association also claimed that Covered Bridge is in the final stages of connecting an adjacent sewer treatment plant, Hayfield Utilities, Inc. ("Hayfield"), into Covered Bridge and simultaneously bringing a new 100,000 gallon per day treatment plant on-line. It was alleged that this connection will double the customer base for Covered Bridge and render the pro forma revenues and expenses as recommended in the Staff Report no longer indicative of normal operations.

The Homeowner's Association proposed that Covered Bridge's rate request be denied, that the connection to Hayfield be made, and that a new rate be established now for the combined system. In the alternative, the Staff recommended rate should be approved, the connection to Hayfield should be required to be made within 60 days with a new rate established at that time.

In response, Covered Bridge indicated that no definitive date had been established for the Hayfield connection and that the connection was not even a certainty at this point. Further, Covered Bridge maintained that its rate application had been based on a historic test year, that its existing rate is insufficient, and that the evidence supported an immediate increase.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The recommendations in the Staff Report to disallow the expenses for an infiltration inspection, telephones, legal fees, transportation fees, and office rental are reasonable and should be adopted. The evidence presented by Covered Bridge in support of these expenses is not persuasive.

2. Covered Bridge's rate application was filed pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure For Small Utilities. The regulation requires the applicant to utilize a historic test year based on its annual reports, with adjustments for known and measurable changes. The proposal by the Homeowner's Association to merely adjust Covered Bridge's existing rate by the CPI gives no recognition to the utility's actual operating costs and in this case would not allow all reasonable expenses to be recovered.

3. The use of a 1996 test year is reasonable and should be accepted. The Homeowner's Association presented no analysis of the charges included in Account No. 714 to support its claim that the total expense is unreasonable. The Staff Report, which was based on a limited financial examination, concluded that these expenses were reasonable.

4. Covered Bridge received a Certificate of Public Convenience and Necessity from the Commission for the expansion of the treatment plant in Case No. 93-275.¹ Hayfield should be connected to Covered Bridge without undue delay once the treatment plant expansion is complete and brought on-line as this will minimize the number of wastewater discharge points in the area. The exact date that this connection will be made is currently unknown.

5. Hayfield's customers will not become customers of Covered Bridge once the connection is made and they will not be charged the rate approved herein. Hayfield

¹ Case No. 93-275, The Application of Covered Bridge Utilities, Inc. for a Certificate of Public Convenience and Necessity to Expand Its Existing System.

will retain its customers and provide them with wastewater collection services and bill for the treatment service provided by Covered Bridge. Covered Bridge will accept and treat Hayfield's wastewater at a non-residential wholesale rate which has not yet been established. Any non-residential wholesale rate to be charged by Covered Bridge to Hayfield must receive prior approval from the Commission. Recognizing that the Hayfield connection may be imminent and that it would not be reasonable for Covered Bridge to treat Hayfield's wastewater for free, Covered Bridge should file a new rate application within 60 days of the date of this Order to establish an initial rate for Hayfield and to adjust as appropriate the residential rate established by this Order.

6. The recommendations and findings contained in the Staff Report, except as noted in Finding Number 7 of this Order, are supported by the evidence of record, are reasonable, and are hereby adopted as the findings of the Commission and are incorporated by reference as if fully set out herein.

7. Covered Bridge presented additional evidence at the hearing regarding the \$350 performance bond premium. This is a prudent expense and should be included in pro forma operations.

8. The revenue requirement recommended in the Staff Report of \$58,252 should be increased by \$398 ($\$350/.88$) to include recovery of the performance bond premium and operating ratio.

9. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for Covered Bridge's current operations and will produce gross annual revenues of \$58,650.


IT IS THEREFORE ORDERED that:

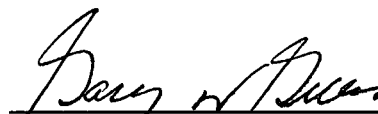
1. The rates proposed by Covered Bridge in its application are denied.
2. The rates in Appendix A of this Order are approved for service rendered by Covered Bridge on and after the date of this Order.
3. Within 30 days of the date of this Order, Covered Bridge shall file with the Commission its revised tariff setting out the rates approved herein.
4. Within 10 days of the date that Hayfield connects to Covered Bridge, Covered Bridge shall file with the Commission and the Homeowner's Association a notice setting forth the date the connection was made.
5. Within 60 days of the date of this Order, Covered Bridge shall file a new rate application to establish an initial rate for Hayfield and to adjust as appropriate the residential rate set forth in Appendix A hereto.

Done at Frankfort, Kentucky, this 9th day of October, 1998.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-455 DATED OCTOBER 9, 1998

The following rates and charges are prescribed for the customers in the area served by Covered Bridge Utilities, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

Sewer Rates

Single Family Residential

\$40.06 per Month